

An Overview of GASB Statement #34

This document does not cover every aspect of GASB Statement #34. It is a brief overview designed to provide a general understanding of the Statement to those not familiar with its accounting and reporting requirements. This overview represents the views and understanding of the staff preparing it and additional follow-up should be undertaken when deemed necessary by the reader.

Overview

The Governmental Accounting Standards Board's Statement #34 (also referred to in this document as GASB 34 or the Statement) was issued to make financial statement presentations more comprehensive and more useful/informational/easier to understand for the users of the reports. Certain portions of the new requirements will certainly accomplish those goals. GASB acknowledged the complexity of the changes and the time necessary to adapt to the new requirements by phasing in the implementation of the Statement's requirements.

Implementation Phase In

Revenues (exclusive of special or extraordinary revenues) from fiscal year 1999 determine the implementation phase for Missouri school districts.

Phase 1 = those with revenues greater than \$100 Million

Phase 2 = those with revenues in excess of \$10 Million, but less than \$100 Million

Phase 3 = those with revenues less than \$10 Million

Phase 1 effective for FY 2002

Phase 2 effective for FY 2003

Phase 3 effective for FY 2004

GASB 34 provides additional phase in dates for the retroactive reporting of infrastructure (e.g., roads and bridges), which will have little, if any, impact on school districts.

New Format of the Report

GASB 34 retains much of the old presentation, but adds additional statements and note disclosure requirements, as well as making other revisions to the data required to be presented.

The GASB 34 format includes:

Independent Auditor's Report

Management's Discussion & Analysis (new)

Government-wide Financial Statements (new)

Fund Financial Statements

Notes to the Financial Statements (additional disclosures required)

Other Required Supplementary Information (including changes to the budget to actual statements)

Management's Discussion & Analysis (MD&A)

The MD&A is considered Required Supplementary Information (RSI) and introduces the basic financial statements and notes. The Missouri Department of Elementary and Secondary Education (DESE) expects this requirement will benefit the users (readers) of the report. The MD&A is the responsibility of the school district and may be partially prepared using data contained in the district's budget message. The district should discuss the current year data as compared to the prior year data, with the emphasis on the current year, noting both positive and negative aspects. (Obviously, in the first year of the new reporting format, certain comparisons will not be possible. The district should indicate when this is the case and note that such comparisons will be made in subsequent years.)

The MD&A is to be completed based on facts, conditions and decisions known as of the date of the auditor's report and is to include:

- a. A brief discussion of the basic financial statements.
- b. Condensed financial information derived from the government-wide financials comparing the current and prior years. (See these requirements outlined below.)
- c. An analysis of the government's overall financial position and results of operations.
- d. An analysis of the balances and transactions of the individual funds.
- e. An analysis of the significant variances between the original and final budgets and between the final budget and actual data.
- f. A description of significant capital asset and long-term debt activity during the year.

Districts should refrain from discussing items in the MD&A that are not specifically required by GASB 34. The use of charts and graphs is encouraged to facilitate the reader's understanding of the data presented. Projections of future events or planned future events (e.g., the district plans to seek voter approval for a bond issue to make facility upgrades) should be avoided. If the district has obtained voter approval for a new bond issue, but has yet to actually issue the bonds, the district could briefly discuss the new bond issue and information related to the uses thereof in general. Keep in mind that the emphasis of the MD&A is to be on current year events and transactions affecting the district's financial condition.

Condensed Financial Information

The fourteen items required for item b above are:

1. Total assets (distinguished between capital and other)
2. Total liabilities (distinguished between long-term and other)
3. Total net assets (distinguished between amounts invested in capital assets, restricted and unrestricted amounts)
4. Program revenues, by major source
5. General revenues, by major source
6. Total revenues
7. Program expenses – at a minimum by function
8. Total expenses
9. Excess or deficiency before certain contributions, special and extraordinary items and transfers

10. Contributions
11. Special and extraordinary items
12. Transfers
13. Change in net assets
14. Ending net assets

New Government-wide Statements Required by GASB 34

Statement of Net Assets

Most closely aligned with a balance sheet, this statement shows assets, liabilities and net assets (assets minus liabilities). This financial statement may be formatted by categorizing assets and liabilities as current and non-current (the classified format) or based on the liquidity or maturity of the assets and liabilities (the liquidity format).

The net assets are to be reported in the following three categories: Invested in capital assets (net of related debt), Restricted, and Unrestricted.

Statement of Activities

Most closely aligned with an Income Statement, this financial statement shows the revenues, expenses, and other changes in net assets. Expenses are presented on the function or program level. The revenues that offset these expenses are identified in columns to the side of the expenses by type of revenue (as discussed below). The Net (Expenses) Revenues and Changes in Net Assets are reflected on the schedule. The costs of a particular function (or program) not covered by identifiable program revenues are covered by the general revenues of the district (e.g., property tax revenues) as shown on the lower half of the new statement.

Identification of Revenues:

Governmental operations are financed from four major sources:

1. Those who purchase, use or directly benefit from the goods or services of the program (always a program revenue)
2. Parties outside the government's citizenry (program revenue if restricted to a specific program -- general revenue if unrestricted)
3. The reporting government's taxpayers (always a general revenue even if restricted to a particular program)
4. The government institution itself (such as through investing) (usually a general revenue)

Program revenues must be further identified as Charges for Services, Program Specific Operating Grants and Contributions or Program Specific Capital Grants and Contributions.

DESE's School Finance section plans to provide guidance on its web site relating to the program/function breakdowns and the classification of revenues for Missouri school districts to use in preparing the Statement of Activities. Although this will represent only the Department's recommendations, providing this guidance should help standardize the data presented in school district audit reports. Independent auditors may chose to present information differently and

DESE recognizes (and accepts) that auditor judgment is a factor in the audit reports that will be prepared for the districts and received by the Department.

Fund Financial Statements

The focus of the **fund** financial statements is to be on the entity's **major** funds. These financial statements are what Missouri school districts are accustomed to seeing in their audit reports. For the governmental funds, the fund financial statements will consist of a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances. (The actual titles of these financial statements may vary depending on whether the district is a cash basis or accrual basis district.)

Major Funds

After noting that the district's primary operating fund (the General Revenue (Incidental) Fund) is always a major fund, the Statement's requirements for determining other major funds are that:

- a. Total assets, liabilities, revenues, or expenditures of that individual fund (governmental or enterprise) are at least 10% of that respective line item for all funds of that category or type **and**
- b. Total assets, liabilities, revenues or expenditures of the individual fund are at least 5% of the corresponding element total for all governmental and enterprise funds combined.

DESE's position is that all four funds (Incidental, Special Revenue, Debt Service and Capital Projects) are major for Missouri school districts. State law establishes these funds and certain restrictions on the transfers between them require DESE to obtain financial data on each fund. Reporting all four funds as major in the audit report will correspond with the district's requirements to report the four funds on the Annual Secretary of the Board Report (ASBR) for DESE purposes. It should be noted that DESE is not currently planning any changes to the ASBR as a result of the issuance of GASB Statement #34.

Notes to the Financial Statements

The notes to the financial statements present additional, relevant information regarding the financial statements that is not presented on the financial statements, but which is necessary for a full understanding of the data presented thereon. Therefore, the notes are considered an integral part of the financial statements and such a notation is made on the face of the financial statements. GASB 34 brought forward the note disclosures previously set out by other authoritative guidance and added additional disclosures for the new reporting items established by the Statement. (Subsequent GASB Statements (e.g., GASB Statement 38) have provided further guidance in the area of note disclosure requirements.)

Budget to Actual Statements

As previously mentioned, GASB 34 changed the requirements for the budget to actual financial statement. This financial statement is required for each fund legally required to adopt an annual budget (all four funds of a school district in Missouri). The budget to actual statement is now to include columns for the original budget, the final budget, and the actual expenditures. Variance columns are optional and may be presented to show the differences between the original and final budgets or between the final budget and the actual expenditures.

The change to this statement appears to be beneficial to the users of the report, as well as the local board of education. In the past, many districts have, either on their own or on the advice of their auditor, amended the budget to actual at year end. This was then shown in the financial statements as though there were no differences between what the district budgeted and what was expended. In some cases, significant differences were masked by the year-end amendment. Reporting the original budget, the final budget, and the actual expenditures on the schedule provides a much more meaningful and useful tool for future budgeting purposes, and allows for the identification of unexpected events (e.g., the increase in heating fuel costs a couple of years ago that could not have been predicted when the budget was originally prepared) or areas the district consistently over or under-estimates for that may require closer scrutiny.

DESE encourages the use of variance columns by local districts to facilitate the usefulness of the financial statement for budgeting purposes. The variance columns will also be of use to the district in preparing the budget to actual portion of the MD&A. Districts may want to discuss the most appropriate presentation format with their independent auditor to determine what will best suit the district's needs in the future.

Capital Assets

Specific requirements are outlined in GASB 34 relating to the reporting and depreciating of capital assets (formerly referred to as fixed assets). (The Statement also eliminated what was previously called the General Fixed Asset Account Group.) Districts will undoubtedly want to talk to their independent auditor regarding capital asset reporting requirements and the impact (from the auditor's perspective) on the audit report if such items are omitted.

Capital Assets include:

1. Land and land improvements
2. Buildings and building improvements
3. Vehicles
4. Machinery
5. Equipment
6. Works of art
7. Historical treasures
8. Infrastructure (i.e., roads, bridges, water and sewer systems, dams, drainage systems)
9. All other tangible and intangible assets used in operation with initial useful lives greater than one year.

Some states have recommended that large and medium sized districts (those in Phase 1 and 2) use a threshold of \$5,000 for GASB reporting purposes and that smaller districts (those in Phase 3 with less than \$10M in revenues) use a threshold of \$1,000. DESE believes this is a local decision and will not be mandating or requiring certain levels; however, DESE acknowledges that the lack of a consistent requirement will skew any comparisons attempted between districts reporting capital asset data.

Some districts have asked the question: “Can a district use a different threshold than that used to determine capital outlay to be paid from the Capital Projects Fund?” The answer to this is **yes**. In fact, the district might have more than one level they use for different purposes. The district might use the \$1,000 threshold outlined in the accounting manual for determining purchases from the Capital Projects Fund, they might use \$500 for insurance and inventory purposes, and they might use \$5,000 for GASB 34 reporting purposes.

If you are a Phase 2 district with a required implementation date of fiscal year 2003 and you will be presenting capital assets, you must have the capital asset records in place 07/01/02! They must be in place at the beginning of the fiscal year in which you are required to implement.

Important

Talk to your auditor. Make sure you’re in agreement with regards to implementing GASB Statement 34 so you’re prepared.

Read available information. Order publications if deemed necessary.

Watch the School Finance web site for future GASB 34 updates.